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EMPOWERMENT OF MUDARABAH PRACTICES IN FACING COVID 19 ENDEMIC CHALLENGES IN MALAYSIA

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Abstract

Introduction: Mudarabah is a type of partnership contract in Islamic banking and finance. The salient conditions of the contract are that capital is contributed by the capital provider to the entrepreneur and profits are shared between the two while losses are fully borne by the former. Despite the many advantages of the mudarabah contract as a financing instrument, it is not as popular as other financing agreements, especially in debt-based financing. This phenomenon is due to some issues associated with this contract, making it less attractive to investors. Therefore, the focus of this study is to discuss the mudarabah contract, particularly concerning the constraints in its implementation and the measures to strengthen it to make it remain relevant, especially in developing the capacity and capability of entrepreneurs affected by the Covid-19 pandemic.

Purpose: This study fully employed the library research method in which information was obtained from classical and modern literature pertaining to mudarabah. Current information and data were analysed to come up with suggestions and measures for strengthening the application of mudarabah.

Methodology: The study found that although mudarabah has been widely practised in the Islamic financial system, the practice is limited to receiving funds in the form of deposits rather than direct financing from banks and investors to entrepreneurs due to certain risks associated with the contract that makes it incompatible with the prevailing banking system

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Findings: Several steps have been identified to empower mudarabah, such as expanding the mudarabah application through the investment account platform (IAP), adopting the interest scheme approach, upskilling, and training entrepreneurs, introducing mudarabah-based products in the market, offering incentives for mudarabah-based products, expanding the guarantee facilities to mudarabah contracts, and introducing mudarabah mutanaqisah.

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INTRODUCTION

The Covid-19 outbreak that hit the world in early 2020 has immense impacts on the lives of people. In addition to the lives lost, movements and social activities were severely restricted during the Movement Control Order (MCO) period in the country. As a result, economic activities were severely curtailed causing many people to be in debt and leading to mental stress. Given the enormous impacts brought by this epidemic, particularly in the economic aspect, Islamic finance offers several alternative proposals and solutions in accordance with the nature of Islam as a blessing to all in the world (al-Qur`an, 21:107).

The Covid-19 outbreak that hit the world in early 2020 has immense impacts on the lives of people. In addition to the lives lost, movements and social activities were severely restricted during the Movement Control Order (MCO) period in the country. As a result, economic activities were severely curtailed causing many people to be in debt and leading to mental stress. Given the enormous impacts brought by this epidemic, particularly in the economic aspect, Islamic finance offers several alternative proposals and solutions in accordance with the nature of Islam as a blessing to all in the world (al-Qur`an, 21:107).

LITERATURE REVIEW

Maya et al. (2020) found that entrepreneurs have agreed on the ease of using crowdfunding to raise capital, although they are reluctant to share their business idea online. Besides that, an appropriate framework should be proposed to further enhance entrepreneurship development in Malaysia, specifically in meeting the need to raise funds in line with Islamic law principles. They also propose either the contract of Murabahah, Musharakah, or Mudarabah as an underlying contract to raise the fund. Besides that, Reazul Islam and Rubi Ahmad (2020), the woman borrowers realize the Shariah regulation of Mudarabah and Musharakah requires high moral and ethical values and diligent repayment performance. In addition, they are aware of some other underlying provisions such as business liquidation, share transfer, information disclosure and business termination. They suggest that the perceived Shariah rules are akin to those that are commonly used

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in the general partnership businesses among Muslims. It indicates that disadvantaged entrepreneurs would accept the rules that are easy to comprehend and favourable to their interests. Peni Nugraheni and Istiqomah Nur Alimin (2020) have found that risk, the quality of the financing screening process, and the analysis of financial statements positively influence the profit-loss sharing financing.

Beside the above, article by Farah Adlina Ahmad Jamaluddin, Nur Syahirah Mohammad Nasir and Muhammad Shahrul Ifwat Ishak (2022) with the title of Mudarabah Based Crowdfunding Model as An Alternative Fund for Empowering Single Mother Entrepreneurs have discussed some of the method of empowerment of Mudarabah`s practices for the needy. Also, the paper with the title Applicability of Mudarabah and Musharakah as Islamic Micro-equity Finance to Underprivileged Women in Malaysia by Reazul Islam and Ruby Ahmad (2019) discussed the applicability of mudarabah and musharakah as micro financing tool. A paper by Fareiny Morni and Azima Khan with the title Mudharabah as a Conduit For Social Cohesion Among Vulnerable Women (2020) where it discussed some of the practice of Mudarabah with Penan group of people and how this contract was successfully provide additional income to this indigenous people.

Looking at the existing literature review of the Mudarabah topic, it is clear that most of the writing only focus on the application, challenges and its opportunity without really discussing the the proposal and suggestion to empower it to the higher level, thus justify the concentration of this paper which will discuss the practice of Mudarabah and suggestion for its empowerment.

DEFINITION OF MUDARABAH

Mudarabah contract has been regarded as one of the applicable contracts in contemporary finance. In general, the mudarabah contract is referred to as "trustee finance" or "passive partnership contract" (Al-Zuhayli, 2007). In Arabic, the term mudarabah, if it is directly translated, it means "al-darb fi al-ard" (الضرب في الأرض), which explain as "among others, to move from places to places searching for sustenance or livelihood" (ISRA, 2011). Technically in the muamalah context, this contract is used to explain a partnership between 'rabbul mal' and 'mudarib' wherein 'rabbul mal' as capital provider provides the capital to an entrepreneur 'mudarib' for investment in a commercial venture, profit from the venture is then shared between the two parties and loss will only be borne by the capital provider, which explains the term 'passive partnership' in earlier text.

The relationship between rabbul mal and the mudarib is described in Islamic Jurisprudence as having different duties and responsibilities. The rabbul mal will contribute the money, and the mudarib provides management and skills to do a specific commercial transaction. Bank

Negara Malaysia in its effort to ensure the validity of the mudarabah contract is observed from the Shariah point of view, has defined it as a contract between a rabbul mal and mudarib under which the rabbul mal provides capital to be managed by the mudarib and any profit generated from the capital is shared between the rabbul mal and the mudarib according to a mutually agreed profit sharing ratio (PSR) whilst financial losses are borne by the rabbul mal provided that such losses are not due to the mudarib›s misconduct (ta'addi), negligence (taqsir) or breach of specified terms (mukhalafah al-shurut) (BNM, 2015).

VALIDITY OF MUDARABAH CONTRACT

Though the validity of the Mudarabah contract is not explicitly evident in the text of the Quran, Muslim scholars consensually agreed that the term Mudarabah was rooted from 'al-darb fi al-ard', the meaning of this word has been used in the Quran to expound, the act of travelling from place to places, seeking the bounty of Allah as evidence of the permissibility of action of a trader:

> "....others travelling the land seeking of Allah's bounty" (Surah Al-Muzzammil: 20)
>
> It was also approved by Prophet Muhammad (PBUH) as reported by Suhayb r.a.:
>
> "Three matters that have the blessing (of Allah (S.W.T)), i.e. a deferred sale, muqaradah (mudarabah (profit sharing)), mixing the wheat and barley for domestic use and not for sale" (Narrated by Sunan Ibn Majan, as cited in Sapuan 2015)

The Prophet Muhammad SAW himself has acted as an agent for Khadijah Bt. Khuwaylid (his wife). He was entrusted with many business activities on her behalf. Narrated by Ibn Ishaq, the Prophet (PBUH) took her goods to Syria, traded with them, and sold them at a profit, and it amounted to double or thereabouts (Rahman, 2018). The act of the Prophet (PBUH) in the text act as evidence that this form of commercial activity was a practice during the pre-Islamic era. In another narration, the Prophet (PBUH) has approved an act of Abbas Ibn Abd al -Muttalib, who gave his property to another party for mudarabah (profit sharing). In the contract, Abbas had stipulated a number of conditions to his partner, which included not bringing the capital onto the sea and not bringing with him the capital crossing a valley; and not buying livestock with the capital; and if his partner violated the conditions, he should guarantee the loss occurred (Narrated by Al-Bayhaqi in al Sunan al-Kubra, as cited in Rahman, 2012). The Prophet (PBUH) did not show any objections against the practice, which can be regarded as an implicit approval by the Prophet (PBUH).

Then, the companion of Rasulullah (PBUH) also practices the Mudarabah contract. There is a situation where Umar al-Khattab has

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agreed to become a capital provider and has shared the profit by allocating half of the profit with his two sons and the other half to Baitul al-Mal (Wahbah al-Zuhaili, 1984, as cited in Kitab al-Muwatta by Imam Malik). The wisdom of the permissibility of Mudarabah is to create the opportunity for the community to expand their wealth via cooperation among them and gain the best yield by combining their capital and skills (Wahbah al-Zuhaili, 1984).

APPLICATION OF MUDARABAH IN ISLAMIC FINANCE

Contemporary scholars have approved the use of Mudarabah in Islamic Financial systems as long as the validity of the contract is kept, and it does not contradict the provisions in the al -Quran and Sunnah. As such, the application of the contract can be evident in various Islamic financial institutions and commercial transactions, including Islamic banking, investment companies and takaful operator. This contract is expected to be able to unleash the potential of the market and contribute to the development of economic activities. Alas, the mudarabah contract is less favoured by financial institutions due to reasons discussed later. The below discussion will focus on the application of Mudarabah among institutions in Islamic financial systems and other commercial activities.

Islamic Banking

One of common practices of mudarabah in Islamic banking product is Profit Sharing Investment Account (PSIA), whereas the depositor and bank will agree on certain PSR (Profit Sharing Ratio) for the specific projek or business activities that will generate income. According to Maybank Islamic, the customers provide the Bank with the mandate to invest in the Bank's selected portfolio of Shariah compliant assets. The bank will then select some of its investment portfolio`s assets to be offered to the depositor and the return of the assets will be shared between them as per agreed PSR (Maybank, 2020).

Beside deposit from retail customers, Mudarabah also be used for corporate and treasury products such as Islamic Negotiable Instrument of Deposit (INID), Mudarabah interbank placement and others. NID was designed by BNM as an instrument for the commercial banks and financial institutions to mobilise domestic savings from the public. The rapid development of Islamic financial systems has accelerated the need to introduce more marketable deposits instruments for Islamic banking. Hence an Islamic version of NID was designed sharing similar objective to that of its conventional counterpart NID, and one of the underlying contracts for INID are under the concept of mudarabah. Under Mudarabah based INID, investor will deposit a sum of money with Islamic Bank which will then issue INID certificate to customer evidencing the deposit acceptance. On the maturity date, the investor will return the INID to the Islamic Bank and in return will receive the principal value of INID with its declared dividend based on the pre agreed profit sharing ratio, and in Malaysia, offering of INID is governed under the Guidelines on Islamic Negotiable Instrument (BNM, 2006).

Islamic Interbank Money Market (IIMM)

Mudarabah Interbank Investment (MII) is an instrument used in the Islamic interbank money (IIMM) market to facilitate financing between the deficit Islamic bank and the Islamic bank with the surplus. IIMM allow deficit Islamic bank to obtain financing using MII from the surplus Islamic bank, which the former bank is the mudarib and the latter is the rabbul mal. The investment period is from overnight to 12 months, while the rate of return is based on the gross profit rate before distribution for the investment of 1-year of the investee bank. Under this arrangement, the profit-sharing ratio is negotiable among both parties. The principal invested shall be returned at the end of the period, together with the profit arising from the use of the fund by the bank/mudarib (BNM, 2016).

Islamic Capital Market

The Malaysian Capital market is among the largest capital markets globally, and one of the main contracts used in issuing Sukuk in Malaysia is mudarabah. Sukuk are Islamic financial instruments designed to facilitate market players in obtaining capital from an investor (Isra, 2016). It is also known as a structured financing from the Sukuk holder to the Sukuk issuer (Razak et al., 2019). Under the contract of mudarabah, the issuer of Sukuk is looking for financing, hence there is the mudarib, and the holders of mudarabah Sukuk are the providers of capital (rabbul mal) which also held ownership in the mudarabah equity. Profit from Sukuk is a return on equity and is shared between the parties based on a pre-agreed profit-sharing ratio.

Takaful

The takaful industry operational model is built against the mudarabah contract as a foundation, and the contract is also used as an underlying contract for investment in the takaful fund. If in banking, banks are the mudarib and later the rabbul mal, mobilising capital from investors and channelling to those who seek financing, for the case of the takaful industry, this profit-sharing contract is between the takaful operator as an entrepreneur who is entrusted with managing the takaful fund and participant are the rabbul mal who is obliged to pay takaful contribution. The profit in takaful is a return on the investment and surplus from the underwriting activity in respect of the takaful funds, which later is shared between the contracted parties for a predetermined profit-sharing ratio. Losses under the takaful contract are to be borne by the participant. However, it only includes losses in the form of a reduction of their capital or by paying higher contributions (Ahmad Mazlan Zulkifli, et.al, 2012; AAOIFI, 2010).

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THE ADVANTAGES OF MUDARABAH BASED FINANCING

Currently, there are two Islamic financing methods used in Islamic finance, namely equity-based financing, and debt-based financing. Equity-based financing is financing provided in the form of partnerships or equity holdings to those who lack capital, whereas debt-based financing is in the form of debt grants to customers or debtors. Equity-based financing consists of mudarabah contracts, musharakah (investment projects), musaqah (irrigation), and muzara`ah (sharecropping), among others (Isra, 2016). Meanwhile, debt-based financing comprises sale and lease contracts with deferred payments, such as Tawarruq, Murabahah, Bai inah, Bai Bithaman Ajil, and Ijarah (Hassan, 2011).

Concerning repayment, debt-based financing is in favour of the creditor because the debtor has to repay the debt regardless of whether the business is profitable or not. The situation is different for equity or partnership-based financing, which looks at the profit result of the business in determining repayment to the capital provider. If the business makes a profit, then there will be a dividend payment to the capital provider. However, if there is no profit, then the capital provider will not receive anything either in the form of return of capital or profit. In the current landscape, debt-based financing still dominates most Islamic banking and finance markets worldwide (Muhammad Nouman, Karim Ullah, & Saleem Gul, 2018).

Many literature works have discussed these two forms of financing and compared them in terms of which form is more profitable, which is riskier, and which has a more positive impact on the economic development of a country (Abdullateef Abdulqadir Maikabara, Sri Maulida, & Abdulmajeed M.R Aderemi, 2020). Staunch supporters of equity-based financing assert that participation and risk sharing, commonly known as profit and loss sharing (PLS), is the essence of the design of Islamic financial products (Aggarwal & Yousef, 2000; Ariff, 1988; Hearn, Piesse, & Strange, 2012).

Looking at the roles of these two methods of financing in helping the asnaf, those facing financial hardship, and businesses affected by Covid-19, clearly partnership- and equity-based financing including mudarabah can play a greater role in assisting them. This is because such a method of financing provides the opportunity and time for businesses to move forward without being burdened by fixed debt repayments. This is also in accordance with the wisdom of mudarabah legislation, which is aimed at, among others, the development of property, mutual assistance between groups in society, and mobilisation of capabilities and expertise (Fiqh Manhaji, 2009). Furthermore, this type of financing provides more flexibility for the financial and liquidity management of companies and businesses and allows businesses to use the surplus cash for growth or expansion.

Other than that, governments can also benefit from equity-based financing including mudarabah, which can lessen the governments' current conundrum of continued dependence on debt. For instance, infrastructure projects financed via sukuk mudarabah or musharakah involve the sharing of risk between the government and investors, and in the long run, such arrangement can stimulate the country's economic development in a more sustainable manner. This is as mentioned by Obiyathullah (2020):

> "As a profit-loss sharing contract, using mudarabah-based paper (sukuk) to fund infrastructure would essentially constitute securitising future cash flows from the project. The key advantage to governments would be that, unlike debt, there are no fixed obligations and therefore no leverage. The macroeconomic vulnerability arising from debt-induced volatility is avoided. Since mudarabah contract is based on the ability to pay and linked to project cash flows, there is little if any stress on government budgets. Government budgets can focus on other more important expenditures such as building infrastructures, social expenditure and others. Historical evidence showing that it indeed has been where in medieval Europe, the Italian nation states had adopted the mudarabah contract and modified it as commenda. The commenda played a significant role in funding the European renaissance. Commenda later resurfaced as the venture capital financing technique that made Silicon Valley what it is today". (The Edge, Obiyathulla Ismath Bacha, 2020).

CHALLENGES IN IMPLEMENTATION MUDARABAH IN CURRENT ISLAMIC FINANCE

Studies in the past have given different explanations as to why partnership contracts are shying away from the actual practice in Islamic Finance. However, the explanations and their literature remain scattered, the number of studies focus on different dimensions of the issue (Nauman & Ullah, 2014), and most studies have not offered a straightforward solution to reduce the issues (Jouaber & Mehri, 2012). Experts have conceded that Islamic partnership contracts are the ideal mode of financing, and they truly represent the spirit of Islamic finance (Dusuki, 2007; Ahmad, 2000). Hence partnership contracts should be the main highlight in Islamic financial institutions. Alas, Islamic institutions tend to avoid partnership contracts in investment and heavily rely on Shariah-compliant non-partnership contracts because they provide a fixed return on investment (Nauman & Ullah, 2014).

Although mudarabah is widely applied in Islamic finance, its focus is rather limited, i.e., on deposit products and some of Islamic capital market only. One of the reasons for investors' lacklustre acceptance of equity-based financing, more specifically mudarabah, is that there is higher risk associated to it compared to debt-based financing despite it potentially being more profitable. Due to the great risk associated with mudarabah-based products, Bank Negara Malaysia (BNM) has set a rule

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that the risk weightage ratio of such products is 150%, as an emergency plan if something happens to the business.

The purpose of this ratio is to measure a bank's financial stability when offering this product, by measuring its available capital as a percentage of its risk-weighted credit exposure. (Investopedia, 2022). It is evident that, in the context of banking, mudarabah-based financing is not profitable as suppose it be, highly risky, and incompatible with the role of banks as financial intermediaries only. Besides, its implementation requires high capital. This is compounded by the problem of operational risk arising from a lack of entrepreneurs' expertise in handling business projects and moral hazards such as fraud, breach of trust and others (Khan, 2015).

Apart from the high risks, there are several issues related to mudarabah such as a lack of customer awareness, capital guarantee requirements, doubtful expertise of the authorities, and asymmetric information (Abdullateef Abdulqadir Maikabara, 2020). Aulia Fitria Yustiardhi et al. (2020) explained that the main challenge faced in implementing mudarabah and musharakah in Islamic banking's retail products is lacklustre response. Although they suggested several measures to strengthen these two contracts in the Islamic banking system, the current banking framework which is tied to Basel`s risk management framework is subject to various tight guidelines that make mudarabah and musharakah financing using banks' own funds for retail financing highly risky.

In practice, the Islamic financial institutions are inclined toward Murabahah for debt financing (short term debt) or bai' bithaman ajil (long term debt) as compared to equity financing tools (Sapuan, 2015). Using the Mudarabah contract in profit sharing is riskier for Rabbul mal (Islamic bank) as Islamic banks often do not have access and much information on the proposed project, including its profitability. Information provided by the prospectus entrepreneurs may not be sufficient to assist the bank in making the right decisions. Prospectus entrepreneurs will usually know more about the risk of the proposed projects. This inequality of information between both parties is known as asymmetric information. The exacerbated of the asymmetric information is that it can lead to a great deal of complexity in running a business where the problem of adverse selection issues and moral hazards will arise (Siddiqui, 2008). Thus, information asymmetry is the main reason why debt-based financing remains the main driver for sources of funding in business activities (Tag el Din, 2005).

In another finding, Ismail and Tohirin (2008); and Khalil, Rickwood and Murinde (2002) asserts that asymmetric information problem in the mudarabah contract can lead to unproductive activity. This situation arises as Islamic banks might fail to do an effective due diligence process in obtaining imperfect information about prospective borrowers as entrepreneurs. They are chances in which entrepreneurs might conceal accurate information regarding their background and capabilities before entering the contract. Thus, the adverse selection problem of selecting not worthy prospects to manage a business might arise.

In addition, Ashraf, and Hussain (2011) noted the report of moral hazard of customers reporting losses in their financial statements to avoid paying the rabbul mal. Agency problems in mudarabah contracts are mainly caused by the entrepreneur(mudarib) who manages the mudarabah fund, has complete control of the agreed project and has more information on its performance (Mazuin and Rahmdzey, 2020) and this issue is also rooted in asymmetric information, which will complicate the process of achieving an optimal contract (Hoppe& Schmitz, 2018). The agency problem expounds above suggests that the Mudarabah arrangement may require customers to provide their integrity to protect the rabbul mal/bank.

RECOMMENDATIONS FOR MUDARABAH EMPOWERMENT AND IMPROVEMENTS

Despite the constraints and challenges faced in implementing mudarabah as discussed earlier, it does not mean the end of the mudarabah concept. This is because of the nature of mudarabah that contains various benefits and maslahah to the society, thus it only needs to be adapted and alligned with the current financial framework and improved where necessary. Thus, this paper proposes several recommendations to resolve the challenges faced in ensuring that the mudarabah contract remains relevant, especially during this Covid-19 epidemic era.

The proposed measures to empower the mudarabah practices within the framework of the Islamic financial system during the post-Covid-19 pandemic era are discussed below:

a) Implementation of Mudarib Yudarib or Two-Tier Mudarabah

Mudarib yudarib refers to a mudarabah contract where the rabbul mal invests his capital with a mudarib who subsequently invests the fund with another mudarib. Under this arrangement, Mudarib may assign mudarabah capital under his management to another mudarib in another mudarabah (mudarib yudarib) or to another manager subject to the condition that the consent of rabbul mal is obtained. (BNM, 2016).

There is a scholarly debate on the permissibility of this type of mudarabah in which some scholars prohibit it even with the consent of the original rabbul mal due to the presence of unclear elements, while some scholars require the consent of the rabbul mal and others do not even require such consent (al-Zuhaily, 2012). However, as per the guideline by BNM above, the view held by the authority in this country is to accept the concept of mudarib yudarib provided there is clear consent from the capital provider (BNM, 2016). Mudarib yudarib is already implemented in Islamic banking and finance, where one the current applications is in offering products through Investment Account Platform (IAP).

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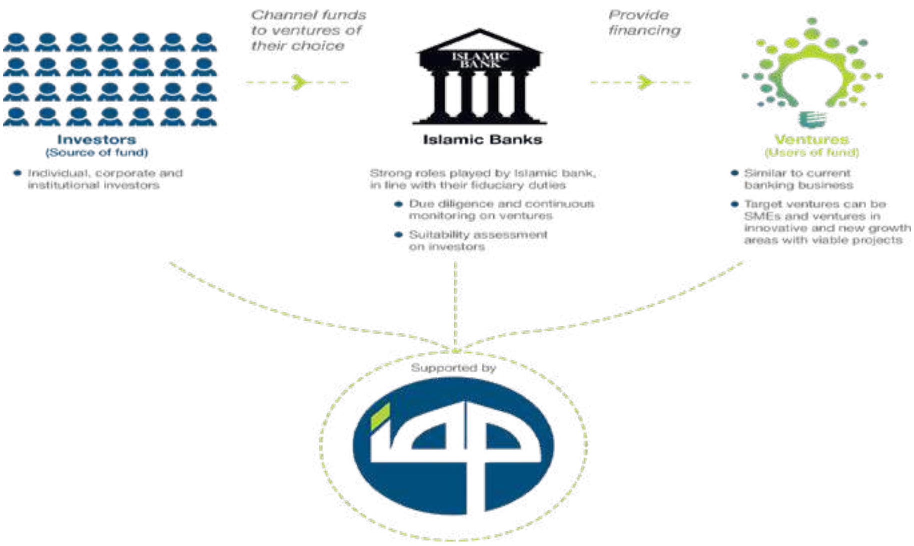
1) Mudarabah Application Through Investment Account Platform (IAP)

IAP is an electronic platform that connects those who have surplus funds (investors) and those who need funds. Through this platform, the bank acts an intermediary between investors and those needing funds. The bank facilitates transactions between these two parties by matching investments with identified ventures or projects that need funding.

Figure 1: How IAP Works



Source: IAP, 2022

IAP has several advantages. Besides being regulated by the bank that acts as an intermediary between the parties, it has sound and good governance in terms of risk management, thus minimising the possibility that undesirable events and moral hazard will occur. Furthermore, since it is an open platform, the participants (investors and companies) have the flexibility to choose contracts either in the form of equity-based financing such as mudarabah, musharakah, and wakalah bi al-istithmar or in the form of debt-based financing such as tawarruq, ijarah/lease and others, depending on the suitability and the appetite of investors and businesses (IAP, 2022).

Mudarabah can ride on the advantages of IAP to become the catalyst for future economic development and the main engine for the country's growth. Among the advantages of implementing mudarabah through this system over the traditional mudarabah are: the entrepreneurs have been screened in advance regarding their capabilities, where the screening status provides a rough idea of the capabilities of the enterprise. Thus, mudarabah through IAP is safer and less risky besides having the potential to be developed further. It is also in line with the framework of the modern financial system which looks at the features of good risk management and sustainable governance framework, among others (IAP, 2022).

IAP is focused on investing in established businesses, in which funds will only be extended to entrepreneurs who are experienced in managing the business and have low risk. Clearly, this excludes less experienced entrepreneurs who are severely affected by the Covid-19 epidemic. Nonetheless, since the effectiveness of this system has already been proven, it only needs a few changes and adjustments to suit it to small businesses that need business assistance.

2) I-Tekad Initiative

The i-Tekad programme was launched by BNM in 2020, targeting small traders, asnaf, and financially disadvantaged entrepreneurs. It is a social financing platform operated by selected Islamic banks, and its partners offer capital, micro-financing, and structured training to selected entrepreneurs. This programme is a clear example of how funds raised through mudarabah are channelled to the less fortunate and businesses and enterprises that are severely affected by Covid-19.

Similar to IAP, i-Tekad also uses a two-tier mudarabah platform in which the banks involved in the programme act as financial intermediaries to manage the mudarabah process. The modus operandi is that the bank acts as the first tier mudarib. The bank channels the funds received from the depositor or rabbul mal to the second mudarib by using the second tier mudarabah contract. Compared to IAP, i-Tekad is more focused on the asnaf, B40 group, and financially unbankable persons (Bank Muamalat, 2021) where this programme is designed to use micro-financing for the provision of capital plus social financial funds, namely zakat for eligible applicants. Several Islamic banks participate in this programme, including Bank Islam Malaysia Berhad (Bank Islam), Bank Muamalat Malaysia Berhad and Cimb Islamic Bank. They collaborate with partners such as state Islamic religious councils to assist eligible micro-entrepreneurs. Bank Islam is the first bank to implement the i-Tekad programme (Bank Islam, 2021). The government also has agreed to allocate RM20 million to increase the seed capital of the initiative (MOF, 2022). According CIMB Islamic Bank:

> "The funds will be invested into business venture carried out by Asnaf and B40 under asnaf fisabilillah category nationwide (to be referred as Entrepreneur (mudarib)). Asnaf (the poor) is someone who does not have a property or revenues sufficient to meet the basic needs of themselves and their dependents to accommodate the needs of food, clothing and shelter. Fisabilillah is a struggle, effort and activity aimed at upholding and defending the religion of Allah. Business ventures identified for iTEKAD are from the segment of food & beverages, agriculture and gig economy. Meanwhile, the fund will be used for the purpose of working capital. The Entrepreneur (Asnaf and B40 under asnaf fisabilillah) will

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undergo a structured training and mentoring programme provided by Training Consultants to upskill/reskill their business plan. Training Consultants are responsible to train and guide the Entrepreneur to ensure sound business growth and sustainability until the maturity|" (CIMB Islamic Bank, 2021).

b) Application of Mudarabah Throught Crowd Funding Platform

One of the proposed methods to empower mudarabah is through crowdfunding platforms. According to Lambert and Schwienbacher (2010), "crowdfunding it is the voluntary collective participation of a large number of individuals through small individual contributions to projects". They also extend the definition of crowdsourcing provided by Klemann et al. (2008), by describing crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes". Mollick (2014) defined it as a funding effort that is drawn on a relatively small contribution from a relatively large number of individuals via the Internet.

In terms of its regulation, the Securities Commission (SC, 2019) has issued specific guidelines on crowdfunding and has outlined the criteria that must be met by those who want to offer the crowdfunding platform. Among others, a robust screening system must be in place to ensure that the issuer or the party in need of funds has sufficient capacity and expertise to manage the funds. In the context of mudarabah, the issuer is the mudarib, i.e., those who receive funds from investors through the crowdfunding platform and manage them in activities that can generate income. The SC guidelines on crowdfunding require among other that the system provider must carry out due diligence and screening on the potential MSMEs, also must ensure that funds obtained from investors are safeguarded in a trust account until the funding aim is met and appropriate disbursements are made (SC, 2020).

Based on the above guidelines, any programme offered by the issuer needs to meet strict criteria that can address the issues associated with mudarabah as discussed above. Many researchers have also begun to show interest in conducting studies on the application of mudarabah through crowdfunding (e.g., Muhammad Shahrul Ifwat Ishak & Md. Habibur Rahman, 2020; Farah Adlina Ahmad Jamaluddini, Nur Syahirah Mohammad Nasirii, & Muhammad Shahrul Ifwat Ishak, 2022; Syahida Abdullah & Oseni, 2020, Muneeza et al. 2018, Hendratmi et al. 2019). Such scholarly interest indicates that mudarabah has great potential to be developed further through crowdfunding platforms.

c) Offering Mudarabah via an Interest Scheme Platform

One of the proposed suggestions to empower mudarabah contracts in the post-Covid-19 pandemic era is by offering it through an interest scheme platform. An interest scheme means "any interest or right to participate, whether enforceable or not and whether actual, prospective or contingent whether in Malaysia or elsewhere in any investment scheme, in any time-sharing scheme; or in any recreational membership scheme (SSM, 2022). Interest excludes any shares in or debenture of corporation, any capital market product under the Capital Markets and Services Act 2007, any interest in a partnership agreement save for the types of agreement specified under s.2 (1)(iii)(A) and (B) of the Interest Schemes Act 2016; and any participatory interest in any product regulated under the Financial Services Act 2013, Islamic Financial Services Act 2013 and Development

Financial Institutions Act 2002. Interest scheme involve the process of pooling of a financial contribution from the public in exchange for an interest in a particular scheme".

Based on observations, there are hundreds of interest schemes in the country, and they serve various purposes. One of them is the programme offered by Ict Zone Venture Bhd (IZV) that is based on mudarabah for leasing of office equipment (mudarabah mu`addat). In this scheme, IZV as the mudarib will operate a business by renting office equipment to tenants consisting of companies, and the proceeds will be distributed to the capitalists/rabbul mal (IZV, 2022).

Looking at the mudarabah application here, clearly, the interest scheme platform is able to give a new look to mudarabah outside the deposit/interbank placement and Islamic capital market. The scheme is able to reduce the risk for investors who want to grow their wealth through mudarabah contracts. This aim can be achieved since the scheme is registered under Suruhanjaya Syarikat Malaysia (SSM) and monitored with the sound and robust rules by SSM to ensure that the risk of loss or moral hazard can be reduced, as it involves managing public funds. The platform benefits businesses as it helps them obtain a cheaper source of funding than the funding provided by commercial banks through debt-based financing. Thus, in this juncture, the government needs to play a greater role in strengthening the interest scheme by providing more incentives such as tax reductions and others to encourage the industry players and companies that need funds to utilise to this form of funding. Incentives are crucial in empowering and ensuring the success of such programmes (Abdullateef Abdulqadir Maikabara, 2020).

d) Expanding the Functions of Third-Party Guarantee Institutions in Supporting Mudarabah

This suggestion for mudarabah empowerment involves establishing a specific entity to provide a third-party guarantee should anything happen to the enterprise. The justification is for the purpose of risk management and to avoid the moral hazard found in some current mudarabah applications. From the shariah perspective, in trust-based contracts including mudarabah, a guarantee from the entrepreneur himself is not permissible except in situations of negligence, breach of conditions, and mukhalafah syurut only. As for guarantees from third parties, it is permissible (BNM, 2011; AAOIFI 2010; SC, 2021).

Although currently some institutions offer third party guarantees for mudarabah contracts, such guarantees tend to be geared for corporate bodies for the purpose of issuing and securitising Islamic commercial papers such as sukuk and other Islamic capital market products, and it is beyond the reach of small traders, B40 entrepreneurs, and unbankable persons to benefit from these guarantees. For example, Dana Jamin was established after the 2008 financial crisis, but it only focuses on

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guarantees for sukuk, including mudarabah sukuk (Dana Jamin, 2022). Similarly, although there is a guaranteed assistance mechanism for business funding through Syarikat Jaminan Pembiayaan Perniagaan (SJPP, 2022), the entity established by the government only provides guarantees for customers to secure debt-based financing from banks and financial institutions and not for mudarabah-based financing.

Based on this situation, the government needs to create special institutions or increase the scope and role of the existing institutions to cover the provision of guarantees to small and medium enterprises (SMEs) for equity- or partnership-based financing, including mudarabah. This guarantee is expected to boost the confidence of financial institutions and investors to invest in enterprises by mitigating their risk of incurring losses, which is one of the main reasons for the lacklustre acceptance of mudarabah contracts in the Islamic banking and finance system. This guarantee is also crucial since it will enable entrepreneurs and their enterprises to obtain better ratings, making it easier for them to secure financing capital through mudarabah. A good rating status, especially from major national rating institutions such as RAM Holding and MARC, will encourage the perception that the business is less risky and reduce the issues that are always associated with mudarabah contracts as discussed earlier.

e) Application of Mudarabah Mutanaqisah/Diminishing Mudarabah

Another way to strengthen mudarabah is by introducing mudarabah mutanaqisah concept. In mudarabah mutanaqisah, the capital owned by the capitalist (rabbul mal) is gradually redeemed by the entrepreneur throughout the course of the business, and eventually, the entrepreneur will gain full ownership of the enterprise. For the financier or rabbul mal, its partnership in the business will gradually reduce as the entrepreneur pays for its shares until it completely exits the business as ownership is fully passed to the entrepreneur.

This system has the advantage of gradually reducing the risk borne by the rabbul mal through the redemption of capital by the entrepreneur, especially if there is a possibility that unforeseen risk might arise. Similarly, for the entrepreneur (mudarib), this option allows them to make long-term plans for the development of the enterprise. The entrepreneur has the option to either continue with the partnership where profits will be shared with the rabbul mal or fully own the business by redeeming the rabbul mal’s shares. This arrangement will motivate the entrepreneur to nurture the company due to the knowledge that they can own the company in the future. From the Shariah perspective, there is no issue of mudarabah and musharakah contracts running simultaneously, nor is there a problem of entrepreneurs becoming rabbul mal and partners at the same time, as long as both contacts fulfil its essential elements and conditions (AAOIFI, 2010; BNM, 2015).

A similar concept is practised in offering investment products or asset financing based on musharakah mutanaqisah, whereby through this agreement, the bank or major shareholder/financier will gradually sell its share to customers who are also its partners. At the end of the period, the asset or business will fully belong to the customer, and the bank or financier will recover its capital and profits through this redemption process (AAOIFI, 2010; BNM, 2015).

For this mudarabah mutanaqisah concept, it may also be included in reverse mudarabah, which is in line with the suggestion of some authors who suggest that some of the work in the mudarabah enterprise is done by the rabbul mal (Yusuf Dinc & Buerhan Saiti, 2019). However, the difference between this suggestion and the empowerment of mudarabah through mudarabah mutanaqisah as proposed in this paper is that, in mudarabah mutanaqisah, mudarabah remains as it is in the aspect of capital contribution and the parties who run the business, except that the relationship between the two parties' changes gradually.

In addition, some authors suggest strengthening mudarabah by adjusting profit in favour of the entrepreneurs for a certain period of time (Noraina Mazuin Sapuan & Mohammad Rahmdzey Roly, 2019; Presley & Sessions, 1994; Ahmed, 2002). Further, the profit-sharing ratio (PSR) may be adjusted in the future to safeguard the interests of rabbul mal or entrepreneurs, and this arrangement is also allowed by Shariah (AAOIFI, 2010).

f) Introduction of Financial Products Based on Mudarabah by Development and Social Financial Agencies such as Amanah Ikhtiar Malaysia, Tekun Nasional (TEKUN), PUNB, MARA, YAPIEM, and others

Based on the current offerings of mudarabah-based products by Islamic financial institutions, especially banks, mudarabah in retail financing products is not practised by Islamic banks due to the emphasis of the banking framework on less risky contracts such as debt- and fee-based financing. While there is no restriction on applying mudarabah contracts in banks' product offerings, looking at the existing guidelines, evidently mudarabah-based products are highly risky and require high costs and capital. For banks, these resources can be utilised for safer investments that offer more profits.

However, banks should not move away from offering financing products based on mudarabah simply because of its risks, as such products can still be offered using different operational framework such as corporate social responsibility (CSR) funds, zakat, value-based intermediation (VBI), and social finance. Banks can create specialised units to manage such funds that are not subject to the existing rules applicable to their main business platform (BNM, 2022).

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Ironically, it is observed that government-linked institutions such as Perbadanan Usahawan Nasional Berhad (PUNB), Amanah Ikhtiar Malaysia (AIM), SME Bank, Majlis Amanah Rakyat (MARA), Tekun Nasional (TEKUN) and others are also reluctant to offer partnership-based financing contracts such as musharakah and mudarabah to retail customers. It seems that they are more comfortable using debt-based concepts, especially tawarruq. This phenomenon is inconsistent with the true nature of their business framework, as the purpose of their establishment is to develop the industry and the fact that they face much lower risks than do commercial banks. This is because in most situations, they incur zero cost of fund, or the cost of fund is low because most of the funds and grants are provided free of charge by the government. Their financial and risk management framework is also not as strict as the various guidelines imposed on banks.

As proposed by Islamic Development Bank, "Islamic MFIs need to: a) shift their approach in managing risks as a venture capital institution; and b) provide group level financing (to cooperatives, associations, companies etc.) (IDB, 2015). Importantly, social finance has three unique qualities that can advance financial inclusion in a way that is transformative and addresses constraints typically associated with traditional finance.". (BNM, 2022).

g) Training and Monitoring the Mudarib

One of the steps to strengthen the implementation of mudarabah is by training and upskilling the mudarib. One of the main issues pertaining to mudarabah is the capability of the mudarib or the entrepreneur to carry out the business. This is especially true if the mudarib is an SME with no or little business experience or a young person with no formal knowledge of finance, risk management, and liquidity management, little exposure to the current business environment, and poor behaviour in carrying out the tasks, which can expose the business to losses and disasters. In this respect, the government can initiate programmes including training, mentee-mentor schemes, and entrepreneur apprenticeship before entrusting a person to be an entrepreneur. The training modules can cover aspects beyond the know-how of the business, such as explaining the concept of mudarabah rather than murabahah, tawarruq, or bai al-inah. This is in line with this study's proposal that fund providers need to reduce the reliance on the debt-based financing framework and attempt to be involved in businesses through partnerships as well.

In addition, as some authors have suggested, the training should also emphasise spiritual and Islamic aspects such as the values of trust, truthfulness, sincerity, gratitude, transparency, efficiency, and punctuality as well as the negative values that should be avoided such as treachery, corruption, and cheating (Noraina Mazuin Sapuan & Mohammad Rahmdzey Roly, 2019).

Financiers and rabbul mal also need to develop monitoring strategies on the mudarib. They can set specific standard operating procedures (SOPs) and conduct periodic monitoring to ensure that the entrepreneurs are always fit to continue the businesses and ventures. For entrepreneurs who seem to be deviating from the right track, the rabbul mal can take prompt measures to rectify the situation. Nonetheless, the rabbul mal must not overdo the monitoring up to the micro level as it would be contrary to the concept of mudarabah that is based on trust, where the management of the business should be helmed by the entrepreneur without any intervention from rabbul mal (al-Sharbini; n.d, al-Nawawi, n.d).

In this regard, Islamic Development Bank (IDB, 2015) in one of its studies has emphasised the importance of strengthening social financing through partnerships and venture capital, where the bank stated, "Second, implementation partners generally supplement funding with structured programmes that upskill beneficiaries in financial management, business acumen, and other key areas (e.g. digital capabilities). These enhance their financial literacy, foster entrepreneurial behaviour, and empower the beneficiaries to generate a more sustainable income and improve their quality of life".

CONCLUSION

Mudarabah is a unique financial instrument that offers many benefits. The contract is beneficial to small entrepreneurs and SMEs, and it allows the sharing of financial and business risks. Through the empowerment of mudarabah, the country is heading towards social finance which is expected to play a greater role in Malaysia's future financial landscape, with Islamic finance leading the way and complementing public sector finance and commercially driven financial solutions to promote greater social resilience. Covid-19 has profound social and economic impacts in this country. Many people find it challenging to cope with the impacts of this crisis, and they need a more participatory form of financial assistance, more flexible payment mechanisms, a more conducive business environment, more flexible rules and governance, and appropriate incentives, which can be achieved through partnerships including mudarabah.

The success of the mudarabah implementation depends on the government and industry. The government's role is to introduce policies that can support equity-based financing and enable the Islamic finance industry to provide equity-based financing such as musharakah and mudarabah effectively and efficiently. With the new Bank Negara Malaysia`s direction which encourages reducing reliance on tawarruq and the need to explore other types of contracts, it is timely and appropriate for Islamic financial institutions, particularly Islamic banks, to take proactive steps to offer equity-based financing products including mudarabah due to its unique features and benefits. At the same time, they also need to make adequate preparations to deal with the risks associated with this type of contract.

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